Oriental Aromatics Limited
Earnings Conference Call
May 11, 2021

Moderator: Ladies and gentlemen, Good day and welcome to the Oriental Aromatics Limited Q4 FY21 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. I now hand the conference over to Mr. Anuj Sonpal from Valorem Advisors. Thank you and over to you, sir.

Anuj Sonpal: Thank you and Good afternoon everybody and a very warm welcome to you all. My name is Anuj Sonpal from Valorem Advisors. We represent the investor relations of Oriental Aromatics Limited. On behalf of the company, I would like to thank you all for participating in the company's earnings conference call for the fourth quarter and financial year ended 2021. Before we begin, I would like to mention a short cautionary statement. Some of the statements made in today's earnings conference call maybe forward looking in nature. Such forward looking statements are subject to risks and uncertainties which could cause actual results to differ from those anticipated. Such statements are based on management beliefs as well as assumptions made by and information currently available to management. Audiences are cautioned not to place any undue reliance on these forward looking statements in making any investment decisions. The purpose of today's earnings conference call is purely to educate and bring awareness about the company's fundamental business and financial quarter under review.

Now let me introduce you to the management participating with us in the earnings call. We have with us Dharmil Bodani – Chairman and Managing Director, Shyamal Bodani – Executive Director, Parag Satoskar – Chief Executive Officer, Girish Khandelwal – Chief Financial Officer and Ms. Kiranpreet Gill – Company Secretary. As any further delay I request Mr. Dharmil Bodani to give his opening remarks. Thank you and over to you, sir.

Dharmil Bodani: Thank you Anuj. Good afternoon everybody. It is a pleasure to welcome you to the Quarter 4 and FY21 Earnings Conference Call of Oriental Aromatics Limited. I hope all of you are keeping safe and healthy. To get straight to talking about the performance during the quarter the company witnessed a healthy demand across most products except for Turpene chemicals due to the offseason where we saw pressure on both raw material prices and other costs including transportation cost as well as lower price realization due to offseason and therefore pressure on the margins. We were able to offset this by driving our volume growth which resulted in increase in revenues on a year-to-year and a quarter-to-quarter basis. On the ongoing CAPEX plans, I am pleased to inform the capital investment program in Baroda, Bareilly and Mahad are on track and in fact in Baroda ahead of the curve. However, they are facing moderate delays in Mahad due to the COVID-19 crisis and the Bareilly plants are normal and are functioning as per what we had anticipated. Now, I request Mr. Girish Khandelwal our CFO to give you the financial highlights. Thank you.

Girish Khandelwal: Thank you Dharmil. Good afternoon all. Here I will start with on a consolidated basis in Q4 FY21 the operating revenue for the quarter was Rs. 221 crore which was an increase of approximately 31% on a year-on-year basis. Operating EBITDA reported was Rs. 33 crore which was down by about 7% on a year-on-year basis. Operating EBITDA margin stood at 15.04% as against 20.98% a year ago. Net profit after tax reported was Rs. 22 crore which was declined by about 6% year-on-year while PAT margins are reported 10.12%. Now talking about the performance for FY21 on a consolidated basis the operating revenue was Rs. 709 crores which decreased by approximately 7% on a year-on-year basis. Operating EBITDA was Rs. 155 crore which was an increase of about 22% year-on-year. Operating EBITDA margin stood at 21.88% as against 16.74% in the financial year 2020. Net profit after tax reported was Rs. 102 crore which was an increase of about 18% on a year-on-year basis while profit after tax margins were 14.38% which were up by 304 basis points year-on-year. For FY21 the cash profit stood at 120 crore which was an increase of about 13% on year-on-year basis. Here we are very happy to say that in spite of most difficult year due to the pandemic we were able to achieve highest ever EBITDA of Rs. 155 crores and PAT margin of 14.38%. We consider this as fantastic year in our history. Thank you all. With this, we can now open the floor to the question-and-answer session. Over to you, Anuj.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Viraj Mehta from Equirus PMS. Please go ahead.

Viraj Mehta: Just wanted to understand on the capital expenditure we have planned a very high number in terms of CAPEX, but what we see in the balance sheet is less than 40 crores, so can you throw some light on that?

Parag Satoskar: So, primarily when it comes to CAPEX we have a big number which has been plan, but it is something which is going to come in branches. So right now the kind of plans or the kind of CAPEX which is going on in the plant is primarily setting up the infrastructure and kind of buying long weight item and that is the reason why we see that the employment of capital is a little slow especially in the expansion projects at Baroda, but as we go on in the next two quarters this particular employment of capital will substantially increase and once we have all the clearances for starting work in Mahad that is when the real employment of capital will start.

Viraj Mehta: And when do you expect that to happen in Mahad?

Parag Satoskar: So, I think the next two quarters the current and the next quarter would be investment primarily in Baroda expansion and the process reengineering expansion in Bareilly I think we start Mahad expansion from beginning of Q3 this year.

Viraj Mehta: Just one question on raw material and finished product prices if I look at the alpha pinene prices the RM prices had gone up since November onward and I am assuming that would have hurt us this quarter, but finished product prices are also now picking up since February, March onwards, camphor prices have also now shown strength in last couple of months, so whatever large reduction in gross margin we saw this quarter to this extent, is it kind of fair to assume that this is like last 15, 16 quarter low gross margin is kind of gone off?

Dharmil Bodani: I think the information that you have gathered is accurate in terms of where the raw materials are and where the camphor prices are, but you have to understand Oriental Aromatics is driven not by one vertical, but by four verticals. We feel that the other three verticals are continuing to see sold out capacities and fairly decent value realization and yes camphor is seeing in this quarter hopefully affirming and as the season gets into play. So, we do not run Oriental Aromatics quarter-to-quarter and there can be ups and downs in terms of the margins, but I think the results that you see of year-to-year are above our guidance and we will stay with the guidance of 15% to 17% going forward.

Moderator: Thank you. The next question is from the line of Nirav Jimudia from Avil Research. Please go ahead.

Nirav Jimudia: I have two questions one is with reference to our hydrogenation facility at Baroda and the one which is now coming up as a part of the new CAPEX, so is there any difference in terms of handling of chemicals like with respect to bulk for the specialty like currently probably we may be handling more of bulk and new facility more of specialty could be handled if you can explain this and then I will move to the second question?

Dharmil Bodani: Hydrogenation in Baroda along with some other product plants single chemical plants that we are building. As mentioned in the past these are specialty materials. The hydrogenation facility that we are building which Parag mentioned in the next quarter you will see more CAPEX coming into play because we get deeper and deeper into the project. There is a combination of bulk to medium to small materials that we will handle there. We will in that plant have a good balance of primarily specialty chemicals followed by mid volume, mid value and there would be a handful what we call within Oriental Aromatics container filler where there will be volume materials or low value materials primarily to give basket of materials to the industry.

Nirav Jimudia: Sir, is there some sort of understanding from the customers also to develop products according to their requirements or probably we are going to the customers in terms of developing the products by our own and telling them that see these are the products we are going to offer you?

Dharmil Bodani: So Nirav as explained to you and if you follow the past calls Oriental Aromatics is primarily also fragrance and flavor manufacturer. So, fortunately we do not need the customers that we approach to tell us what we need to take into R&D we already have their in-house research of the product mix that we want to take into R&D. So, we will drive our own strategy on chemicals of course looking at the customer requirements and our internal requirements in the selection of molecules. So, it is going to be internally driven strategy in line with what we believe the industry wants.

Nirav Jimudia: Sir, my second question is with respect to the cost and the technology arbitrage what we expect with respect to the new CAPEX because what I believe is that probably these are the new facilities you already mentioned that most of would be driven towards specialty more, so what sort of cost and technology arbitrage we expect with respect to the new CAPEX the question is basically with respect to why I am asking this question is basically to understand more about our incremental margins from the new capacity and the ROCEs what we expect?

Dharmil Bodani: So, Nirav I would not go into that much of micro I will stay with the guidance of 15% to 17% across the four verticals. I do not feel comfortable at this point to talk beyond that, but to stay with the guidance.

Nirav Jimudia: So, but if you can explain slightly qualitatively that what sort of cost and technology arbitrage we have with respect to the old versus new capacity that would be also helpful?

Dharmil Bodani: I do not understand what do you mean by arbitrage?

Nirav Jimudia: So I will try to go more into detail so like let us say currently so I was just going through your P&L account so in 2018 probably our fixed cost was 50 crore which is now at 67 crores, 68 crores in FY20 the reported balance sheet, but if we see our turnover it has moved up from 500 crores to 750 crores in this period. So, probably the turnover has gone up by 50%, but the cost has just gone up by 25% to 30% so far as the fixed cost is concerned so I am just trying to understand that when we are again putting up same sort of capacities where our incremental turnover is going up by probably 700, 800 crores what sort of cost dynamics we expect from this new facility?

Dharmil Bodani: Cost dynamics in terms of what?

Nirav Jimudia: So what I am trying to understand is that the fixed cost would not go in that proportion to what it is currently because currently we have been able to control our fixed cost?

Dharmil Bodani: I kind of understand what you are asking.

Parag Satoskar: So I think Nirav I think we will ensure that whatever expansions and whatever CAPEX and whatever plans come in we will have the fixed cost which are commensurate for us to ensure a sustainable EBITDA margin of between 15% to 17% let us put it that way. We will ensure that the pricing, we will ensure that the cost fall into such a range that we will continue to have between 17% to 18% and that is the internal template that we decide whenever a new product get selected.

Moderator: Thank you. The next question is from the line of Rahul Jain from Credence Wealth. Please go ahead.

Rahul Jain: I have couple of questions one was with regards to the margins Parag in the last conference which was held in March we had spoken of course Dharmil you have always been upfront in saying that you know benefits of raw material in the previous quarter and product prices and you had mentioned in the previous call also very clearly that the raw material prices we are through with the inventory part and finished product prices are coming down and you have been always maintaining the margins we should talk about it 15% to 17%, but in the previous conference in March on the longer term basis I am not talking about this quarter and next quarter we had mentioned that on the longer term basis now we were talking about margins in the range of 15% to 20% so I understand or my understanding was probably over a period of next two, three years are we trying to up the guidance from 15-17 to 16-20.

Dharmil Bodani: I do not know where you are getting the 15% to 20% because I do not recall that I have said that ever. We are staying with 15% to 17% and yes every company does want to try and work on improving that number and so will Oriental Aromatics.

Rahul Jain: Sir, what was the capacity addition currently which we are working on the call this time the turnover which we have posted is this post our CAPEX completing in November 20 which we had talked about at Baroda?

Dharmil Bodani: It is part of November 20 what we had spoken about is going to come into play in the next two quarters.

Rahul Jain: I did not get this.

Dharmil Bodani: So, the November 20 when we told you all that we are moving into our expansion plans in Baroda those plans will get completed and we will see some movement from those plans in this second quarter of this year.

Parag Satoskar: Also for those plants the expansion is complete the validation is complete and we had got two full months of production from the plant.

Dharmil Bodani: You are talking about the expansion of the current

Parag Satoskar: So we have had two months of full production at the new validated capacities and the products have reached the customer. So, I think we are planned that is the reason why if you see in the last quarter we have seen a good growth in terms of the volumes as well. So, we are pretty confident about the expansion that was completed to really deliver the desired.

Dharmil Bodani: I just like to add to what Parag is saying I mean we keep talking about our specialty chemicals, we talk about Baroda, Mahad, Bareilly, but I would like to also say that these fragrance and flavor division has seen very good volume and value growth and it is contributing also very important piece in our entire four verticals which is assisting this 15% to 17%.

Rahul Jain: Parag just to get this right there was this Brownfield project at Baroda which got completed in November 20 and in the previous concall you had mentioned it will start contributing from Quarter 1 of FY22, but I think what we said that it is already started contributing for last two months. So, probably one month of March and current month of April is that right?

Parag Satoskar: And also the month of February.

Rahul Jain: And this Brownfield total amount spend was how much Parag?

Parag Satoskar: It was in the region of between 9 to 10 crores.

Rahul Jain: Just to get this CAPEX things right Parag I think previously you had mention about timelines of each of the CAPEX coming through, so if you could just share details in terms of quantifying the amount of CAPEX and the timeline that could be really helpful because you had mentioned that Greenfield project as also Quarter 3 21 another project start, so if you could just share the going from today in next two years at each juncture what kind of CAPEX that completed in terms of value of that CAPEX?

Parag Satoskar: All the plants are currently under construction so what we have estimates of what will be the cost and we will have to kind of give some assumption, but we have a single product specialty dedicated plant which we feel should be commissioned by say Q2 end of this year and that is the CAPEX of around 20 crores. We have certain continuous process reengineering and certain utility expansion projects which are happening in the Bareilly plant which will help us enhance our capacities of Turpene chemicals which are currently running at 100% capacity and those projects will get over by December 2021 and that is where we are envisaging an investment of between 15 to 18 crores and then the third tranche would be the hydrogenation plant which is where we have started the civil construction as we speak and that plant will be commissioned by end of Q4 2021-22 which is March 2022 and that would be an investment of anywhere between 120 to 145 crore we are still working on the cost for certain key utility I would not be able to give you a very narrow range, but that is the kind of range that we are looking for and that will be a decent size plan and then eventually we are looking for the Mahad project which would have an investment of around 200 crores which will be a combination of certain Turpene chemicals as well as well as certain standalone plants for single products and if required and if we feel the opportunity of multipurpose. So, these are the kind of tentative timelines which the indicative estimated investments that are going to happen over the next two years.

Rahul Jain: And the average asset to turn would be around 1.5, 1.8?

Parag Satoskar: I think we normally say that it is 1.7x.

Moderator: Thank you. The next question is form the line of Deepan Sankara from Trustline PMS. Please go ahead.

Deepan Sankara: Firstly I want to understand are we seeing any kind of decline in consumer demand in our end user segment for our fragrances division?

Dharmil Bodani: So the answer to that is no because parts of the world where pandemic is coming under control is seeing demand going back to not only normal, but in certain cases a percentage increase. As far as India is concerned we are seeing future orders at least for the next quarter on par if not slightly improve than what it was last year. So, as of now we are not seeing in the Indian subcontinent the second wave causing any issues to the consumer demand.

Deepan Sankara: This fine fragrance is also seeing month-on-month improving from its lower level?

Dharmil Bodani: It definitely is especially in the middle east and in the Asia pacific region where we are very active and we are seeing business improving in terms of both not only both value and volume, but also in terms of new product development which in the financial year 2021 was a bit slow. What we have seen in the last quarter and little before that maybe starting November that there has been new development happening which is always a very good sign in our industries that means there will be new products being launched. I suspect the consumer demand to stay where it is gradually improve and eventually at the end of this as the vaccination grow globally and in countries like ours I feel the consumer demand not only will be back, but I think there should be healthy growth.

Deepan Sankara: Finally what is the reason for cost increase in the employee cost and other expenses is there any one offs included in that for the quarter?

Girish Khandelwal: So the employee cost actually effective from 1st January we have given the increments to the employee.

Dharmil Bodani: Deepak to answer your question we have had very as you can see a very good year we have had no retrenchment in our employees and in fact we have rewarded our employees with the outstanding performance that they have done. In some cases it is one off and in some cases as Girish has mentioned we have given healthy increments and we have looked after our people that is the most important thing.

Girish Khandelwal: Other expenses majorly 2.5 crore increase due to the CSR major amount is that and rest all other expenses are in line all are under cost under control.

Moderator: Thank you. The next question is from the line of Ankit from Bamboo Capital. Please go ahead.

Ankit: When we talk about Oriental we largely focus on aroma chemicals and camphor and all and this time you have spoken that flavor and fragrances we saw a tough time during the early part of this year and seeing good increase in value and volumes, so Dharmil if you can spent some time on how that part of the business is shaping up and how do you see the growth in this segment over the next two, three years?

Dharmil Bodani: So, the way I look at it is the last year has been a very big challenge we have mentioned this in the past also especially from the fine fragrance fronts from people staying home not using deodorants, not going out not using perfumes etcetera. What has been very encouraging and as I have explained to you as the world is getting vaccinated economies are opening up, people are going out I see the middle east, the European demand, the American demand coming in fairly strongly. I see even Asia pacific many countries including Indonesia and Singapore improving and I think for us the most important indicator of the fragrance and flavor business revising is the opportunity to work on new products and that since November increased exponentially and I believe that all the submission that Oriental Aromatics has made on new products across the globe are going to see wins and I feel very confident as the world opens the consumer product business will continue to improve and that in turn will have a effect on the growth of the flavor and fragrance division. I think it is stabilized I think we are confident that the volumes that 2021 saw will be improved in 21-22. We are seeing demand not only for the existing products, but also for new product development. So, F&F will be a huge focus for Oriental Aromatics in 21-22 and or for the next few years along with the chemical strategy that we have in place which is very complimentary to the F&F business.

Ankit: So is it possible that this business also can grow in line with our expectations of growth in the overall business we have told that 10% or 15% growth is possible, is it possible that F&F also can grow at faster pace enhance the company's overall revenue growth target that we have?

Dharmil Bodani: The F&F space works very differently from the chemicals and the specialty chemicals space because in the chemicals and specialty chemical space it is largely driven by massive investments and individual plans once those are operational and reach capacity you can put a tangible number to it. In the fragrance and flavor business is a little different because you may win products, but then those products have to succeed in the market so that you in turn get orders for the fragrance or flavor. Example you decide to launch a shampoo and it does very well and your sales increase you will then in turn buy fragrance for that from us if we won it. So the fragrance and flavor growth is always determined primarily by the companies we deal with and how their products do in the end market place. Having said that, we are seeing demand returning across the globe and I think in India once we write this crisis and vaccinate I think there will be more normalization and we will see a healthy growth in that area whether it is going to be as much as the growth of the other two divisions and camphor. I am not too sure I can put a tangible number to that.

Moderator: Thank you. The next question is from the line of Rohit Ohri from Progressive Shares. Please go ahead.

Rohit Ohri: I have two questions probably two parts to that the first one is related to the subsidiaries and all the international subsidiaries what are the opportunities, threats and weaknesses that you see in the International subsidiary and by when do you think on the consolidated level will they be able to maybe breakeven or the EBITDA level and or better if they are having consistent profitability?

Dharmil Bodani: So, in terms of the subsidiaries we have only one which is in Indonesia and that is primarily marketing and sales office. So, I do not know which are the subsidiaries you are referring to.

Rohit Ohri: And how many workers would be having a Jakarta?

Dharmil Bodani: It is sales and marketing team and that also in the long term I think we would move away from the subsidiary model because we found India has got the capacity to supply to the region and there would be no need for us currently to look at investing in flavor and fragrance plant anywhere else in the world and as far as chemicals is concerned we are going to stay India centric.

Rohit Ohri: Sir second thing is related to the new molecules and the new products that you are speaking about assuming and looking at the industry data there are quite a lot of people who are filing for revolving credit facility, so assuming that things come back to normal in F&F in the next probably three or three months, but then in this scenario how many molecules are there with us which we can immediately rule out?

Dharmil Bodani: So that is not how the fragrance and flavor business works Rohit it is not a question of new molecules rolling out. We have explained in our past calls as far as Oriental Aromatics is concerned is we are a specialty generic aroma chemical manufacturer. So, these chemicals have already being used in the flavor and fragrance industry and to give you an example we launched I think it was in December or January three new sandal molecules were already being used in the industry and the launch was very well accepted, the qualities were very well accepted and in fact those three molecules will become part of the expansion plan that we would do by seeing our capacity in the current multipurpose plant because these single product plans and the hydrogenation plans are coming up. So, the market already exists it is not that molecule is not used because the flavor and fragrance industry may have seen a decline. The molecules are continuously being used it is a formulation based business, it is a blending based business. So, as we rule out the molecules have quality and price acceptance we see no reason why we will not be able to achieve our targets.

Moderator: Thank you. The next question is from the line of Anupam Agarwal from Lucky Investment. Please go ahead.

Anupam Agarwal: So, my question was basically on your operating cash flow for the year and working capital we have seen a sharp decline in operating cash flow from 180 crores to around 17 crores primarily led by a sharp increase in debtors days and receivable days, can you just throw some highlights and some points as to why?

Girish Khandelwal: Actually if you see in the Q4 our working capital has increased majorly because on the debtor side the number of credit days has increased by 5 to 7 days at the quarter end and inventory has increased because inventory there are two factors one is we have increased the inventory quantity also because the raw materials prices are going up to keep the position of the low cost inventory and another is the raw material prices has also increased so that working capital requirement has gone up. So, these two are the major reason.

Anupam Agarwal: And what is the estimation that we intend to look at in terms of these inventory and debtors days going ahead?

Girish Khandelwal: Our debtors days will improve by 5 to 7 days, infact they have already improved as on today as compared to the 31st March situation and inventory level we are seeing in the same range as of now because the rates are at the higher side.

Dharmil Bodani: And also see what the season in the next two quarters so we have to stock upon inventory to make sure that if import it at the right price and maybe take in advantage in the event that there is seasonal demand which takes the price up of the finished goods.

Anupam Agarwal: So second question on your CAPEX the cash flow number gives up 35 crore outflow for the year of 21 from the total 300 crore that we have outlined how much do we intend to do in FY22 and 23?

Parag Satoskar: It is more or less the timeline.

Moderator: Thank you. The next question is from the line of Bhavesh Chauhan from IDBI Capital. Please go ahead.

Bhavesh Chauhan: Just wanted to know sir on your tie ups with international fragrance and flavor I think several years back we had a tie up with them and then we have never heard about it, are we in touch with them or looking for some sort of contact or anything?

Dharmil Bodani: The tie up continues as of now it is also renewal, and we will see what happens.

Bhavesh Chauhan: Have they approached us for any sort of plans or any other global MNC has approach us I am looking for something like from China plus one strategy, are we benefitting on those lines?

Dharmil Bodani: Yes we definitely are.

Bhavesh Chauhan: So any meaningful thing I mean any meaningful project…

Dharmil Bodani: I would not be able to get into the specifics of the products that we sell, but I can tell you that we were quit all the multinationals on several different specialty and commodity chemicals, and we continue to grow our share within their buying basket and it is not just one multinational it is across the board.

Bhavesh Chauhan: Sir, secondly what were the volume growth on a year-on-year basis if you can quantify?

Dharmil Bodani: Across the four verticals.

Bhavesh Chauhan: Yeah it will be helpful.

Dharmil Bodani: I do not have those numbers with me.

Girish Khandelwal: Actually year-to-year we compare overall there are little bit reduction because there was shutdown of 40 days due to the lockdown in April and May.

Bhavesh Chauhan: Sir I was looking forward to year over year growth Q4 FY21?

Girish Khandelwal: I had to see actually volume growth it is around 10% or so more than 10%, but I will give you separately the exact number.

Moderator: Thank you. The next question is from the line of Dipen Sheth from Crisil Investment Advisor. Please go ahead.

Dipen Sheth: I have a simple question you have admitted that there has been little bit of tightness or on the working capital bit because of the rise in inventory and receivables, at the end of the year actually short term borrowings have gone up I want to know that if you have as we go forward into the next two years I think we should be spending more than 251 crores on CAPEX and if you are generating something between a 100 to 150 crores of cash profits even assuming working capital does not go up substantially I guess you will have to resort to little more borrowing it is a little bit of a touch and go, but it also depends on how the business fluctuates and what kind of cash flows are generated I do not think we are uncomfortable on the debt position it is just that after this year higher working capital position as an investor I feel a little less confident about the CAPEX getting executed without any additional debt coming on the books?

Dharmil Bodani: So the original debt will come on the books now of course it will.

Dipen Sheth: So I guess we will have to live with it and I do not think it is a terrible it is just that I wanted to clarity on this?

Dharmil Bodani: The original debt will come on the books we are not debt averse we are opened to prospecting of borrowing for the right purposes and at the right time mainly.

Dipen Sheth: And we have spectacularly paid it back in the recent past so I am okay with a little bit of that going up on a much higher productive base I do not think that is too much to worry about and the second thing is that the reversal in margins in the last quarter was mostly expected and actually we have guided so I am not concerned about what has been reported, but from a business perspective is this reversal only as understood earlier a cyclical or one off getting reversed or is there any weakness in the business in any part of the business mix which is leading to this or do you see something changing structurally or is it more or less what we had anticipated?

Dharmil Bodani: So to answer your question look fundamentally and structurally all four vertical seem to be strong in terms of the guidance that we have always given as 15% to 17% and if you have been on our last call we did say that the margins that you all have seen are not sustainable in the long term and we are very straight forward and very honest with that and I think our guidance of 15% to 17% holds and I do not see any of the four verticals in the coming year being something dramatic going wrong with it. I do not see that happening.

Dipen Sheth: One last thing by way of maintenance information on your disclosed financials I cannot see the tax break up for current and deferred?

Girish Khandelwal: This I will give separately because I have to open the balance sheet.

Moderator: Thank you. The next question is from the line of Dhwanil Desai from Turtle Capital. Please go ahead.

Dhwanil Desai: Two questions first Dharmil wanted to understand that in the aroma chemical space so far the overall market dynamic is that most of the product prices are driven by demand supply and it is a spot pricing based business, but are you witnessing any change in terms of willingness of customer to getting into slightly longer term contracts or kind of any such proposals based on China plus one or you all been geopolitical situation?

Parag Satoskar: Dwanil to answer your question I think in the aroma ingredients space and also in the Turpene chemical space with most of our bigger customers most of the times it is not spot it is contracts which are for a duration of between 3 to 6 months which are called as internally RFQs. So, we are looking at that I think also to answer the second part of your question of course there is a tremendous amount of excitement and euphoria about Indian manufacturers and customers are extremely keen on exploring sustainable long-term partners who can deliver value by providing materials A of a standard uniform quality and at a good competitive price. So, I think we are exploring multiple areas we work with customers on spot when it comes to a lot of our local customers or probably say the camphor business on the religious side, but in the rest of the aroma ingredient space I think with the bigger plans we have 3 to 6 months contracts and when it comes to fragrances and flavors I think it is more of a stable pricing strategy which kind of is the one which is in play.

Dhwanil Desai: So just a follow up on that Parag so I mean you said that some of the aroma chemicals do have 3 to 6 months kind of a contract, do you see this timeline getting elongated or people asking for slightly longer term contract if they want supply security, are you seeing such conversations happening?

Parag Satoskar: As we go into the turbulent times there is always this request from customers if we want to go into a long-term contract. As long as we have the comfort of having a back-to-back contract with our raw material supplier we do not mind and in certain cases we go for 12 months contract, but in most of the cases we want to keep our options open because I think the last one year has been a testament where multiple things have happened we have had freight cost going up, we have had ocean liner cost going up. So, we do not want to get stuck in a fixed price contract where we do not have a back to back arrangement with our raw material, but in certain very specific cases we do explore and we do go ahead and do those 12 months contract where we have that buffer build into our pricing and the customer accepts.

Dhwanil Desai: And second question is on the F&F blend side my understanding is and you correct me if it is not accurate, but overall in India and F&F blend space our share of wallet on MNC customer is relatively lower and we have market customers on our list, but the wallet share is lower I mean are we seeing traction in terms of increasing wallet share with the MNC customers in the F&F blend space and is there any opportunity that we can tap on F&F blend space outside India or is it going to remain a domestically focus business?

Parag Satoskar: So, our focus is on the later part of it I believe that the outside opportunities in the F&F space in the Middle East in the Asia pacific region are huge for us and we will continue to grow our market share in that we are very confident. In terms of growing our market share with the MNCs we continue to try they come with their core listed suppliers and it is always an uphill task. So, there are no illusions in Oriental Aromatics business strategy that we will get approved and become a core listed supplier to the MNCs, but there is life outside the MNCs and we focus a lot on that and middle east Asia pacific and India including our neighbors Bangladesh and in fact even maybe China where we will hopefully have opportunities to export our flavors and fragrances and Africa.

Moderator: Thank you. The next question is from the line of Kunal from Vallum India Discovery Fund. Please go ahead.

Kunal: I have a simple question I wanted to understand the inventory which you have on the books at the end of this quarter, for how long will it last considering the current levels of almost 100% realization production?

Dharmil Bodani: So this should be across different verticals I will speak on the fragrance and flavor since the fragrance and flavor price contracts of much longer period and more stable. We have inventories running on critical materials as much as 6 months and on commodities 3 months. On the chemical side I will let Parag answer.

Parag Satoskar: Kunal to answer your question I think Girish has rightly pointed up that the block up in the inventory primarily is because we see a very sustainable trend of prices going up substantially across vertical raw material category and so we believe in the principle that when the prices are going up go long and when they are going down go short. It is a very classic example where when we see that the prices are going up we have gone ahead and use our capabilities to really store the raw material and I am sure we are being told that things should start stabilizing by Q3, Q4 of this year and when we see that happening we will probably start looking at the trends and we will again start cutting down the inventory, but to answer your question even on the raw material front for certain critical raw materials we are now looking at a clear vision of between 3 to 4 months of actual stocks which otherwise were between 30 to 60. We are seeing a 1.5 to 2 months extra pile up of inventories just to keep our prices in control for the finished goods.

Kunal: Just a follow up on that are you seeing any additional stronger from the customer on the chemical side of the business despite the raw materials prices have been strongest 60%, 70% so are we facing a difficulty in pricing in the near term?

Parag Satoskar: This should go again vertical to vertical, flavors and fragrances stays as is on the camphor side we are able to pass on the price increases and on the specialty chemicals also we are able to do that on the bulk aroma chemicals it is a battle.

Dharmil Bodani: I think on a lighter side the biggest resistance comes from our fragrance divisions for a prices.

Moderator: Thank you. The next question is from the line of **Drishtant Chakravarthy from DC & DC Advisors.** Please go ahead.

Drishant: So my question is follow up on the question that is based on the cash from operations question so something that I wanted to understand was is this stocking up of inventory going to be happening every year or like is this disparity that we see in the cash from operations say from FY20 to FY21 or one off or like is that going to continue is something I want to understand?

Parag Satoskar: I have just explained we use our financial capabilities to maneuver our raw material purchases in such a way that if you see a trend where the raw material prices are going up we go long and we have plans and we have storage facilities which can give us the flexibility of stocking up raw material and so that is the reason why you see that the raw material inventory pile up is the little more than expected point number one. Point number two I think on the fragrance flavor division as is also on the Turpene chemical divisions which are a little seasonal in nature you tend to kind of when you are getting into a season you tend to kind of keep a little bit of more raw material inventory we fortunately do not have any achievements but that get sold off at the end of every months. To answer your question it is a one of case we will correct when we see that the prices are going down and we need to go short and we will free up the locked up capital

Participant: My second question is more of a broader picture question so as you rightly stated that there has been a big euphoria regarding specialty chemicals and domestic chemical production in India itself going by the China plus one strategy so we have also seen many new players enter into the specialty chemical divisions and as you have stated in your previous calls that Oriental Aromatics is not necessarily generating or say discovering new molecules or say getting patents on them, so my question was that do you see any competition threats coming in which may eventually say have an impact on margin eventually?

Dharmil Bodani: The product mix at Oriental Aromatics continues to do and continues to grow with its R&D division. We feel extremely confident about the number of products that we are going to launch in the pipeline . As far as competition is concerned it is more the merrier the fittest will survive and do I see margins being affected if companies comes up in one or maybe two chemicals that we manufacture the answer is no because Oriental Aromatics offers a basket we already have I do not have the exact number of my head, but it is how many materials now 54. We have already a basket of 54 materials and normally customers buy all these 54 or at least 80% or 90% from us individual customer. So, it is not a very big concern that a company manufacturing one or two materials will certainly come and compete with us because there is a basket pricing strategy in place which is advantages to the customers.

Moderator: Thank you. The next question is from the line of Aashal Shah as Individual Investor. Please go ahead.

Aashal Shah: Couple of questions one was we mentioned that the chemical we will stay India centric whereas flavor and fragrance is your plan to export as well, is there any specific reason for that?

Dharmil Bodani: The aroma chemicals manufacturing will stay India centric large amount of whatever we manufacture currently and in the future is already being exported and also on the flavors and fragrance I think India is set to bounce back it is a matter of time and the Asia pacific, middle east African markets we are already seeing more in the middle east in Asia pacific. In the F&F sector good bounce back and in terms of our chemicals I think Europe and America are more or less in terms of demand normalize and growing.

Aashil Shah: Another question I have was on the molecule you mentioned that you would be launching are not patented or something?

Dharmil Bodani: To be strictly focus on generic aroma chemicals manufacturing model in both bulk and specialty. So, as a company we do not infringe any patents of our customers I would put it that way because most of them are our customers.

Aashil Shah: So it will just be a pricing game for you to get?

Dharmil Bodani: Not only pricing largely technology driven because these are not easy materials to make. It requires capital investment which is why our outlay of 300 crores of the next two to three years or two years and it requires updated technology. It is not as simple as a bulk drug or a bulk material where it is driven by price. Many of the materials that we are in now are not necessarily driven only by prices it is driven by investment, technology and lot of other factors and in the F&F space and in the specialty aroma chemical space there is odor element which is very important. So, the quality of the product has to be the same as the inventors.

Management: I shall also just add one more point in terms of complexities in Oriental we currently handle more than 28 different chemistries that adds one more level of complexity the kind of variety that we get on the generic.

Moderator: Thank you. The next question is from the line of Aman Vij from Astute Investment Management. Please go ahead.

Aman Vij: I had two questions my first question is on the what was number of products launch in FY21 and the target for FY22 and 23?

Parag Satoskar: The number of products launched in FY2020, FY2021 was if I am not mistaken 6 and we have an extremely active R&D program and a piloting program. So, it should be between say 4 to 6 new generic specialty or bulk molecules which will be added every year. I think when the hydrogenation facility comes up next year would be a little bit different because we will be probably adding around 14 or 15 different products in one go when that facility comes up.

Aman Vij: Just one clarification on this part was not our target around that 2025 is it only after hydrogenation facility comes up we can achieve that?

Parag Satoskar: When we say that we are actually internationally launching 6 or 7 products we also in our kind of what we call the small reaction laboratory make certain materials which are for either our internal fragrance division or our international specific clients. So, if you add all of them which is that number of between 12 to 15, but when I am saying 5 or 6 these are the products which we globally launch parts of our product list and offering it to the customer.

Aman Vij: Sir after a hydrogenation facility comes up can we scale this number to 10 plus international product this year?

Parag Satoskar: I think it is more than the number Aman so like Dharmil rightly said that when you are talking of a specialty aroma ingredient there is this olfactor aspect of the product quality which is very qualitative in nature and it is important to really get that right for getting global acceptability of the material. I think more than the numbers we would probably focus on what we have launched how well is it accepted globally and once it gets accepted globally if we can change the price point which makes it more relevant and useful for perfumer to use it more. So, rather than looking at the number of new products we would probably try to stabilize our product launches and try to increase the global volumes of those products.

Aman Vij: My second question is on our top 10 products so just to understand the competitive landscape sir for a top 10 customers how many suppliers will be supplying the same kind of products which we are?

Parag Satoskar: So, the product selection that we do in the available market of the molecule are most times does not have more than the inventor plus one. So, we would be the inventor plus one or the inventor plus two more. So, we are not playing in a very crowded market and the fragrance and flavor business uses over 6,000 different materials. So, there is enough room for us to choose our battles.

Aman Vij: And to take this further in terms of wallet share is it correct in some of the molecules we will be the dominant supplier to our customers?

Parag Satoskar: So, we do not work with that philosophy what we look at trying to get at least 33% of the world market share of the available market in the molecule that we launch.

Aman Vij: And in the top 10 we will be majority of them will be at 33% market share?

Parag Satoskar: For sure.

Moderator: Thank you. The next question is from the line of Dipen Sheth from Christensen. Please go ahead.

Dipen Sheth: It was just a maintenance question on request for a better tax disclosure because you are giving just a single tax number we do not know what the deferred tax or current tax charges are in your declared P&L that is the only thing I wanted?

Girish Khandelwal: You cannot hear actually we are in 25% tax rate we have adopted the new tax so it will be helpful.

Dipen Sheth: On the working capital bit just one more thing I can see an item called other current assets which has jumped up from 27 to 40 crores during the year, can you share some color on what this?

Girish Khandelwal: Actually it has gone mainly because of the GST on the increase raw material side so 13 crore increase from the GST and 5 crore is the advances to the suppliers for CAPEX and others.

Moderator: Thank you. That was the last question I would now like to hand the conference over to Mr. Anuj Sonpal for closing comments.

Dharmil Bodani: So thank you all very much for participating in this earnings call. I hope we have been able to answer your question satisfactorily. If you have any further questions or would like to know more about the company please reach out to our investor relations managers at Valorem Advisors. Please stay safe and get vaccinated as soon as you can. Thank you so much.

Moderator: Thank you. On behalf of Oriental Aromatics Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.